



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

September 20, 2010

Zeth Ajemian
SCAL Workforce Development Director
Southern California Permanente Medical Group
393 East Walnut Street, LMP Dept. 4th Floor
Pasadena, CA 91188

Dear Mr. Ajemian:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET05-0136 for the period July 5, 2004 through July 4, 2006.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original Signed by

Stephen Runkle
Audit Manager

Enclosures

cc: Steve Duscha, Training and Data Services

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**SOUTHERN CALIFORNIA PERMANENTE
MEDICAL GROUP**

Agreement No. ETo6-0133

Final Audit Report

For The Period

February 13, 2006 through February 12, 2008

Report Published September 20, 2010

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AUDITOR'S REPORT

Summary

We performed an audit of Southern California Permanente Medical Group's compliance with Agreement No. ET06-0133, for the period February 13, 2006 through February 12, 2008. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period November 16, 2009 through November 19, 2009.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$998,478. Our audit supported \$995,046 is allowable. The balance of \$3,432 is disallowed and must be returned to ETP. The disallowed costs resulted from two trainees who did not meet post-training retention requirements, two trainees with ineligible training hours, one trainee with unsupported class/lab training hours, and one trainee who did not meet the minimum wage requirements. We also noted an administrative finding for inaccurate reporting of trainee wage rates.

AUDITOR'S REPORT (continued)

Background Headquartered in Pasadena, Southern California Permanente Medical Group (SCPMG) is a *for-profit* partnership or professional corporation of physicians who provide medical care to patients enrolled in a Kaiser Foundation Health Plan. As approved by the Panel, ETP funded training under this Agreement was to be provided only to employees of the for-profit Kaiser entity, SCPMG.

This Agreement was the fourth between SCPMG and ETP. Some critical objectives expressed by representatives of SCPMG during development of this training project included, training registered nurses to fill highly specialized nursing functions, such as those in emergency and gastroenterology departments, as well as training general radiology technicians to specialize in mammography, computerized tomography, and magnetic resonance imaging. SCPMG also sought to prevent layoffs of chart room workers who could be trained for new jobs as medical assistants, phlebotomists, receptionists, cashiers, and appointment clerks. Therefore, this Agreement provided for training in advance technology, along with business, commercial, and computer skills.

This Agreement allowed SCPMG to receive a maximum reimbursement of \$998,478 for retraining 498 employees. During the Agreement term, the Contractor placed 776 trainees and was reimbursed \$998,478 by ETP.

Objectives,
Scope, and
Methodology We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Southern California Permanente Medical Group. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Southern California Permanente Medical Group complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.

AUDITOR'S REPORT (continued)

- Trainees were employed continuously full-time with the Contractor for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion

As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$995,046 of the \$998,478 paid to the Contractor under this Agreement is allowable. The balance of \$3,432 is disallowed and must be returned to ETP.

Views of Responsible Officials

The audit findings were discussed with Zeth Ajemian, SCAL Workforce Development Director, via e-mail on February 9, 2010, April 5, 2010, and September 16, 2010, and by telephone on September 20, 2010. Mr. Ajemian agreed to bypass issuance of the draft report and proceed to the final audit report.

The issuance of your final audit report had been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning February 12, 2010 through the issue date of this final audit report. The interest waiver (adjustment) was \$90.17, which was deducted from the total accrued interest.

Audit Appeal Rights

If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence

AUDITOR'S REPORT (continued)

directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later.”

Stephen Runkle
Audit Manager

Fieldwork Completion Date: November 16, 2009

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET06-0133 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

SOUTHERN CALIFORNIA PERMANENTE MEDICAL GROUP

AGREEMENT NO. ET06-0133

FOR THE PERIOD

FEBRUARY 13, 2006 THROUGH FEBRUARY 12, 2008

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 998,478</u>	
Disallowed Costs:		
Post-Training Retention Requirement Not Met	2,184	Finding No. 1
Ineligible Training Hours	728	Finding No. 2
Unsupported Class/Lab Training Hours	520	Finding No. 3
Minimum Wage Requirement Not Met	-	Finding No. 4
Inaccurate Reporting	<u>-</u>	Finding No. 5
Total Costs Disallowed	<u>\$ 3,432</u>	
Training Costs Allowed	<u><u>\$ 995,046</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Payroll records provided by Southern California Permanente Medical Group (SCPMG) and Employment Development Department (EDD) base wage information revealed that two Job No. 1 trainees did not meet post-training retention requirements upon completion of training. Therefore, we disallowed \$2,184 in training costs claimed for these trainees (\$312 + 1,872).

Post-Training
Retention
Requirement Not
Met

Title 22 California Code of Regulations (CCR), Section 4401.5 (b) states “A public entity or nonprofit organization that has elected an alternate method of funding its liability for unemployment insurance benefits is only eligible as a ‘participating employer’ for the placement of new hire trainees under a Multiple Employer Contract.”

Exhibit A, paragraph VII. A. of the Agreement between ETP and SCPMG states, “Each trainee must be employed full-time, at least 35 hours per week, with the Contractor for a period of at least ninety (90) consecutive days immediately following the completion of training. The period shall be completed no later than the last day of this Agreement...”

SCPMG reported that Trainee No. 2 received training from March 27, 2006 through March 29, 2006 and completed the post-training retention period from March 30, 2006 to June 28, 2006 with SCPMG. The Contractor’s training records do support the reported training dates. However, EDD base wage information shows that Trainee No. 2 was actually employed with the non-profit, Kaiser Foundation Hospitals, during training and retention, not SCPMG, the *for-profit* entity of Kaiser Permanente specifically approved by the Panel as the single employer eligible to receive ETP funded training per the terms of this Agreement. Furthermore, EDD base wage information supports that Trainee No. 2 was never employed with SCPMG during training or retention, nor was Trainee No. 2 ever employed full-time with any other eligible employer within the term of the Agreement. Thus, Trainee No. 2 completed zero days of the 90 day retention period required by the Agreement.

SCPMG reported that Trainee No. 3 ended training on September 01, 2006 and completed the post-training retention period from September 2, 2006 to December 1, 2006. However, payroll records provided by SCPMG indicated that Trainee No. 3 involuntarily terminated employment on September 28, 2006. Thus, Trainee No. 3 was retained for only 26 days of the 90 day retention period required by the Agreement.

FINDINGS AND RECOMMENDATIONS

Recommendation SCPMG must return \$2,184 to ETP. In the future, the Contractor should ensure that trainees complete post-training retention requirements before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – SCPMG received reimbursement for ineligible training hours for 2 Ineligible Training Job No. 1 trainees. As a result, we disallowed \$728 in training Hours costs for these trainees (\$208 + \$520).

Exhibit A, paragraph VII. A of the Agreement requires that each trainee must be employed full-time, at least 35 hours per week: with the Contractor for a period of at least ninety (90) consecutive days immediately following the completion of training.

Exhibit A, paragraph III of the Agreement requires that *retrainees* be employed full-time by the Contractor as of the start date of that individual's training.

According to SCPMG, Trainee No. 1 ended training on July 3, 2007, and completed retention July 4, 2007 through October 2, 2007. However, SCPMG payroll records show Trainee No. 1 worked only an average of 29 hours per week during the reported retention period. Therefore, rather than disallowing all of Trainee No. 1's training hours, ETP auditor adjusted her retention period to June 27, 2007, through September 25, 2007, during which time Trainee No. 1 met full-time retention requirements. This adjustment, however, caused 16 hours of training from July 2, 2007, through July 3, 2007, to be ineligible. Therefore, these 16 training hours are disallowed – (\$208).

According to SCPMG, Trainee No. 5 began training on May 24, 2006, 12 days before being hired by SCPMG on June 5, 2006. Retrainees are required to be employed full-time with the Contractor as of the start of training unless the Panel approved "temp-to-perm" training, which was not included in this Agreement. Furthermore, based on SCPMG records and EDD base wage information, Trainee No. 5 was not employed by a temporary employment agency or any other California employer prior to or at the start of training with SCPMG. Thus, the 40 training hours reported from May 24, 2006, through June 2, 2006, are ineligible for reimbursement since the training occurred prior to the trainee's employment based on SCPMG records. Therefore, 40 hours of the 200 training hours reimbursed for Trainee No. 5 are disallowed – (\$520).

However, based on SCPMG training records, these ineligible training hours could also have been recorded in error for Trainee No. 5 by SCPMG and thereby reported in error to ETP for reimbursement. This possibility is based on the fact that SCPMG electronic training records for Trainee No. 5 also show what appears to be six duplicate sessions of "New-Hire Training" that was completed between June 7 and June 30, 2006. This duplicate session, which more plausibly occurred *after* the trainee

FINDINGS AND RECOMMENDATIONS (continued)

was hired, was also reported by SCPMG and reimbursed by ETP for the dates June 7 – 9 and June 12 – 14, 2006.

Recommendation SCPMG must return \$728 to ETP. In the future, the Contractor should submit only eligible training hours to ETP for reimbursement.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – SCPMG training and payroll records do not support paid training hours for one Job No. 1 trainee. Therefore, we disallowed \$520 in Unsupported Class/Lab Training training costs claimed for this trainee.
Hours

Title 22 California Code of Regulations (CCR), Section 4442(a) requires the Contractor to maintain and make available records that clearly document all aspects of training. All classroom/laboratory training records must include hours of attendance and dates of training. This Agreement allowed for both paper roster and electronic record keeping methods.

Paragraph 2(b) of the Agreement states: “Reimbursement for class/lab and videoconference training for trainees in job number 1 and 2 (*Job No. 2 was deleted per Amendment No. 3*) will be based on the total actual number of training hours completed by training delivery method for each trainee, up to the maximum specified in Chart 1, providing the minimum and no more than the maximum hours are met.” Exhibit A, Chart 1 of the Agreement requires that Job No. 1 trainees complete between 24 to 300 class/lab hours.

Paragraph 5(a.1) of the Agreement states in part that, “Records must be retained within the control of the primary Contractor and be available for review at the Contractor’s place of business within the State of California...”

ETP auditors found that class/lab records maintained by SCPMG do not support reported training hours for Trainee No. 4 since zero of the 40 class/lab hours reimbursed by ETP appear on any electronic training reports and/or paper rosters provided by SCPMG during this audit. Thus, all training costs paid for Trainee No. 4 are disallowed.

Recommendation SCPMG must return \$520 to ETP. In the future, the Contractor should ensure that training records support hours submitted for reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 4 – SCPMG received reimbursement for the training costs of one Job
Minimum Wage No. 1 trainee who did not meet the minimum wage requirement
Requirement Not specified in the Agreement. We previously disallowed \$1,872 in
Met training costs claimed for Trainee No. 3 in Finding No. 1. Thus, we
disallowed no further training costs claimed for this trainee.

Exhibit A, paragraph VII. A. of the Agreement states, “Each trainee must be employed full-time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

The Agreement required a minimum hourly wage rate of \$20.61 for Job No. 1 following the post-training retention period. SCPMG reported that Trainee No. 3 earned an hourly wage rate of \$23.00 per hour after retention. However, wage information provided by SCPMG during our audit indicates that Trainee No. 3 earned an actual hourly wage of only \$19.81 following retention. Thus, Trainee No. 3 failed to meet the minimum wage requirements as specified in the Agreement. The terms of the Agreement for Job No. 1 do allow for the addition of employer paid health benefits to meet the minimum wage requirement. However, SCPMG could not provide ETP auditor any payroll or personnel documentation to support that Trainee No. 3 received any such benefits in addition to the hourly wage indicated above.

Recommendation In the future, SCPMG should ensure trainees meet the minimum wage rate requirements prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 5 – Trainee hourly wage rates reported by SCPMG on invoices
Inaccurate submitted to ETP were inaccurate. As a result, the Contractor did
Reporting not comply with Agreement reporting requirements.

Paragraph 2(d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.” Actual, complete trainee wage rate information is required to verify compliance with Exhibit A, paragraph VII. A. of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates based on payroll documents provided by SCPMG for 72 of 78 initial random sample trainees (*5 initial sample trainees were dropped from audit testing when ETP auditor determined paid training costs for those trainees were adjusted to zero during the Fiscal closeout of this Agreement*). Trainee wage rates reported by SCPMG varied by 5 percent or more from actual wage rates for 62 of the 72 trainees tested (86 percent).

Recommendation In the future, SCPMG should ensure all trainee data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A – Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006